

**COMMISSIONERS**  
MARC SPITZER - Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
MIKE GLEASON  
KRISTIN K. MAYES

OPEN MEETING ITEM  
**ORIGINAL**



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**ARIZONA CORPORATION COMMISSION**

DATE: June 1, 2004  
DOCKET NO: W-01751A-03-0036  
TO ALL PARTIES:

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AZ CORP COMMISSION  
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2004 JUN - 1 A 11:04

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Enclosed please find the recommendation of Administrative Law Judge Marc E. Stern. The recommendation has been filed in the form of an Order on:

**KATHERINE RESORT WATER COMPANY  
(RATES)**

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00 p.m.** on or before:

JUNE 9, 2004

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

JUNE 15 AND 16, 2004

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Secretary's Office at (602) 542-3931.

Arizona Corporation Commission  
**DOCKETED**

JUN - 1 2004

DOCKETED BY	
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BRIAN C. McNEIL  
EXECUTIVE SECRETARY

1                   **BEFORE THE ARIZONA CORPORATION COMMISSION**

2   COMMISSIONERS

3   MARC SPITZER, Chairman  
4   WILLIAM A. MUNDELL  
5   JEFF HATCH-MILLER  
6   MIKE GLEASON  
7   KRISTIN K. MAYES

8   IN THE MATTER OF THE APPLICATION OF  
9   KATHERINE RESORT WATER COMPANY FOR  
10   A PERMANENT RATE INCREASE.

DOCKET NO. W-01751A-03-0036

DECISION NO. \_\_\_\_\_

**ORDER**

11   Open Meeting  
12   June 15 and 16, 2004  
13   Phoenix, Arizona

14   **BY THE COMMISSION:**

15           On January 21, 2003, Katherine Resort Water Company ("Applicant" or "Company") filed  
16   with the Arizona Corporation Commission ("Commission") an application for a permanent rate  
17   increase in its water rates and charges, and certification that it had provided notice to its customers.  
18   In response thereto, the Commission has not received any protests concerning Applicant's proposed  
19   rate increase.

20           On February 21, 2003, the Commission's Utilities Division ("Staff") issued a notice of  
21   insufficiency.

22           In March, 2003, Applicant provided Staff with additional documentation in support of its  
23   application.

24           On December 5, 2003, by Procedural Order, the Company and Staff were each ordered to  
25   make a filing to update this Docket.

26           On December 19, 2003, Mr. C. Ed Schuetz, on behalf of Applicant, filed a response to the  
27   December 5, 2003 Procedural Order. Mr. Schuetz stated that Applicant had provided Staff with  
28   additional information in March, 2003.

          On February 9, 2004, Staff filed a reply to the Company's response to the Procedural Order.  
Staff stated that due to the poor condition of the Company's accounting records, Staff had sent  
Applicant a notice of insufficiency on February 21, 2003, that identified the needed corrections to the

1 Company's application. However, Staff stated in spite of the Company's additional information filed  
2 in March, 2003, deficiencies remained in the application, but there was sufficient information  
3 available to process the case so long as Staff did not face a time-clock limitation.

4 On May 7, 2004, Staff filed a Staff Report recommending that the rates proposed by Staff be  
5 approved, after which, by Procedural Order, the time-clock for processing the application was  
6 suspended.

7 \* \* \* \* \*

8 Having considered the entire record herein and being fully advised in the premises, the  
9 Commission finds, concludes, and orders that:

10 **FINDINGS OF FACT**

11 1. Pursuant to authority granted by the Commission, Applicant is a wholly-owned  
12 subsidiary of a California corporation, C. Ed Schuetz Development Company, Inc. ("SDC"), which is  
13 engaged in the business of providing public water service by pumping water from the 900 feet deep  
14 Katherine Mine shaft to a 50-lot residential subdivision approximately two miles north of Bullhead  
15 City, Mohave County, Arizona.

16 2. Applicant's present rates and charges for water were approved in Decision No. 60173  
17 (May 16, 1997).

18 3. On January 21, 2003, the Company filed an application requesting authority to  
19 increase its rates and charges for water service.

20 4. The Company, with its January 2003 bills, provided notice to its customers of its  
21 proposed rates and charges by first class U.S. mail and, in response thereto, no protests have been  
22 received by the Commission opposing Applicant's proposed increase.

23 5. On February 21, 2003, Staff issued a notice of insufficiency to Applicant.

24 6. In March, 2003, Applicant provided Staff with additional information concerning its  
25 application.

26 7. Although defects remained in the application, Staff continued to process it and  
27 requested that the timeframe be suspended.

28 8. During the test year ended December 31, 2002 ("TY"), Applicant served 41 metered

customers all of whom are residential users who are served by 5/8" x 3/4" meters.

9. Average and median meter usage on the 5/8" x 3/4" meters during the TY were 6,158 and 3,750 gallons per month, respectively.

10. Staff conducted an investigation of Applicant's proposed rates and charges for water service and filed its Staff Report on the Company's rate application request on May 7, 2004, and recommended that the Commission issue a Decision approving Staff's proposed rates.

11. The water rates and charges for Applicant at present, as proposed in the Application and as recommended by Staff are as follows:

	Present Rates	Proposed Rates Applicant	Staff
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$15.00	\$24.00	\$27.85
3/4" Meter	22.50	0.00	41.78
1" Meter	37.50	0.00	69.63
1 1/2" Meter	75.00	0.00	139.25
2" Meter	120.00	0.00	222.80
4" Meter	0.00	0.00	696.25
6" Meter	0.00	0.00	1,392.50
Gallons Included In Minimum	0	0	0
Excess of Minimum – per 1,000 Gallons			
From Zero gallons to 4,000 gallons	\$1.50	\$2.00	3.25
From 4,001 gallons to 30,000 gallons	1.50	2.00	4.88
Over 30,000 gallons	1.50	2.00	5.85

SERVICE LINE AND METER INSTALLATION CHARGES:  
(Refundable pursuant to A.A.C. R14-2-405)

5/8" x 3/4" Meter	\$320.00	*	\$ 420.00
3/4" Meter	320.00	*	495.00
1" Meter	400.00	*	580.00
1 1/2" Meter	600.00	*	820.00
2" Meter	1,000.00	*	2,140.00
4" Meter	0.00	*	4,105.00
6" Meter	0.00	*	7,590.00

SERVICE CHARGES:

1	Establishment	\$15.00	\$15.00	\$15.00
	Establishment (After Hours)	22.50	25.00	22.50
2	Reconnection (Delinquent)	25.00	25.00	25.00
	Meter Test (If Correct)	15.00	15.00	15.00
3	Deposit	**	**	**
	Deposit Interest	**	**	**
4	Reestablishment (Within 12 Months)	***	***	***
5	NSF Check	15.00	15.00	15.00
	Deferred Payment (per Month)	1.50%	1.50%	1.50%
6	Meter Reread (If Correct)	5.00	10.00	5.00
	Late Payment Charge (per month)	0	1.50%	1.50%

8 \* Cost plus 10 percent

9 \*\* Per Commission rule A.A.C. R-14-2-403(B).

10 \*\*\* Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

11 12. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined  
 12 to be \$34,876 which is the same as its original cost rate base. The Company's FVRB reflects a  
 13 \$68,731 reduction by Staff of Applicant's proposed FVRB due in large part to as \$53,131 adjustment  
 14 to Applicant's accumulated depreciation and deductions due to plant advances and contributions and  
 15 the amortization of CIAC.

16 13. Staff increased Applicant's operating expenses by \$7,442 primarily due to an  
 17 adjustment to Applicant's depreciation expense of \$5,767.

18 14. Applicant's present water rates and charges produced adjusted operating revenues of  
 19 \$11,900 and adjusted operating expenses of \$22,408 which resulted in an operating loss of \$10,508  
 20 during the TY for no return on FVRB.

21 15. The water rates and charges Applicant proposed would produce operating revenues of  
 22 \$17,831 and adjusted operating expenses of \$22,408 resulting in no return on FVRB.

23 16. The water rates and charges Staff recommended would produce adjusted operating  
 24 revenues of \$26,374 and adjusted operating expenses of \$22,408, resulting in net operating income of  
 25 \$3,966 or a 11.37 percent rate of return on FVRB.

26 17. Applicant's proposed rate schedule would increase the average monthly customer  
 27 water bill by 49.8 percent, from \$24.24 to \$36.32, and the median monthly customer water bill by  
 28 52.7 percent, from \$20.63 to \$31.50.

1        18.     Staff's recommended rates would increase the average monthly customer water bill by  
2 111.9 percent, from \$24.24 to \$51.37, and increase the median monthly customer water bill by 94.2  
3 percent, from \$20.63 to \$40.05.

4        19.     It appears that the basis for the significant rate increase proposed by Staff is that, since  
5 1994, the Company's un-audited Annual Reports have shown continual operating losses. These  
6 losses were further verified by an operating loss of \$6,778 found by Staff in the Company's last rate  
7 proceeding using a 1996 TY and in this proceeding, when Staff determined the loss to be \$10,508.

8        20.     Previously, on May 15, 1995, after an emergency rate hearing, the Commission issued  
9 Decision No. 59080, which authorized the Company to repay a loan of \$9,552 from SDC to  
10 Applicant to cover the cost of replacing one of the Company's two water pumps utilized to pump  
11 water from the Katherine Mine shaft to its customers, by assessing a monthly surcharge of \$4.19 per  
12 customer until the loan was repaid.

13       21.     During Staff's analysis of the Company's present application, Staff determined that  
14 the Company continued to collect the \$4.19 surcharge through the end of the TY and, at that time, the  
15 surcharge was over-collected by \$6,308. Accordingly to Staff, since the end of TY, the Company has  
16 continued the collection of the surcharge, collecting an additional \$2,920 since the end of the TY.  
17 However, even with the over-collection of the surcharge, Staff believes that Applicant did not  
18 unjustly enrich itself since the Company used the funds to off-set operating losses.

19       22.     Staff is recommending that the Commission order the Company to cease the over-  
20 collection of the aforementioned surcharge without unduly burdening Applicant, and order Applicant  
21 to refund all surcharges collected since January 1, 2003 through the effective date of a Decision in  
22 this matter by issuing each customer an off-setting credit of \$4.19 over the same number of months  
23 that the surcharge was improperly collected. Staff is further recommending that the Commission  
24 order Applicant to file with the Utilities Division Director ("Director") a quarterly report that reflects  
25 each customer's overcharge account balance, the amount refunded, and the amount remaining to be  
26 refunded.

27       23.     According to the Staff Report, Staff believes that the effect of its proposed rate  
28 increase will be somewhat lessened while the recommended surcharge refund in the form of a credit

1 is subtracted from customer bills.

2       24. During the course of its analysis of the Company's financial records, Staff also  
3 determined that Applicant has failed to maintain its books and records in accordance with the  
4 NARUC Uniform System of Accounts ("USOA").

5       25. According to the Staff Report, Applicant is in compliance with its Commission filings.  
6 Additionally, Applicant is current on the payment of property taxes and sales taxes.

7       26. During Staff's review of the Company's water rate request, Staff found that Applicant  
8 is failing to provide water which meets the minimum requirements of the Safe Drinking Water Act  
9 ("SDWA"), as required by the Arizona Department of Environmental Quality ("ADEQ") and that the  
10 Company is providing water with an arsenic level of 25 parts per billion ("ppb") which exceeds the  
11 new maximum MCL level for arsenic of 10 ppb which is to become effective January 23, 2006.

12       27. Staff additionally recommended:

- 13           a. that Applicant notify its customers of the water rates and charges  
14 approved hereinafter by means of an insert in its monthly billing  
15 proceeding the month they are to become effective and file a copy of  
16 the notice sent to its customers with the Compliance Section of the  
17 Utilities Division ("Compliance Section");
- 18           b. that any permanent rates and charges in this matter shall not become  
19 effective until the first day of the month after the month in which the  
20 Director of the Utilities Division receives notice from ADEQ that the  
21 Company is delivering water which meets the water quality standards  
22 required by the SDWA;
- 23           c. that the Company immediately cease the collection of the \$4.19  
24 surcharge;
- 25           d. that the Company refund all surcharge amounts which have been  
26 collected from January 1, 2003, through the effective date of the  
27 Commission's Decision in this matter to the customers as a credit to  
28 their monthly billing over the same number of months that the funds  
were collected beginning at the same time as the new rates in this case  
become effective;
- e. that the Company file a quarterly report with the Commission's Docket  
Control showing each customer's overcharge account balance, the  
amount refunded and the remaining amount to be refunded. This report  
will be compiled on a calendar year basis, due 30 days after each  
calendar quarter and will begin the first quarter after the new rates  
become effective;
- f. that Applicant file, within 90 days of the effective date of this Decision,  
with Docket Control a curtailment tariff for approval by the Director.

Applicant's curtailment tariff shall generally conform to the sample tariff found on the Commission's website or as set forth in Exhibit 5 to the Engineering Report attached to the Staff Report;

- g. that Applicant, following the effective date of this Decision, begin recording the amount of water pumped and sold each month;
- h. that Applicant file, within 30 days of the effective date of this Decision, with the Commission's Docket Control, a copy of the schedule of its approved rates and charges;
- i. that Applicant adopt the depreciation rate table as set forth in Exhibit 4 to the Engineering Report attached to the Staff Report;
- j. that the Company maintain its books and records in compliance with the NARUC USOA for water utilities within 60 days of the effective date of the Decision in this matter;
- k. that the Company file an affidavit with Docket Control within 60 days of the effective date of the Decision in this matter stating that it has begun to maintain its books and records in accordance with NARUC's USOA;
- l. that the Company submit, by December 31, 2004, a report to the Director documenting the steps the Company plans to take to reduce the arsenic levels in its water to a concentration below 10 ppb; and
- m. that Applicant, in addition to the collection of its regular rates and charges, collect from its customers their proportionate share of any privilege, sales or use tax as provided for in A.A.C. R14-2-409(D).

28. Under the circumstances, we find that Applicant must charge rates that allow it to operate in a viable fashion. While we agree in large part with Staff's recommendations for Applicant, we find that Staff's proposed rates and charges are not just and reasonable and the proposed refunding mechanism should not be approved.

29. We find further that the total amount overcollected by the surcharge through the date of the filing of the Staff Report, \$9,228, should be imputed to the Company's TY operating revenue (\$11,900) for a total of \$21,128. However, even with the imputed revenue added to Applicant's TY operating revenues, as against the Company's adjusted TY operating expenses of \$22,408, Applicant is still faced with an operating loss of \$1,280 for the TY and no return on FVRB. Based on our review, we find that the Company's rates as authorized hereinafter are just and reasonable and should enable Applicant to continue viable operations with operating revenue of \$2,822 which will provide Applicant with an 8.09 percent rate of return on FVRB.



**CONCLUSIONS OF LAW**

1. Applicant is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Applicant and the subject matter of the application.

3. Notice of the application was provided in the manner prescribed by law.

4. Under the circumstances discussed herein, the rates and charges for Applicant as authorized hereinafter are just and reasonable and should be approved without a hearing.

5. Staff's recommendations, as set forth in Findings of Fact No. 27 are reasonable and should be adopted with the exception of the two recommendations which deal with the refund of the overcollected surcharge and the requirement to file quarterly reports with the Commission's Docket Control.

**ORDER**

IT IS THEREFORE ORDERED that Katherine Resort Water Company is hereby directed to file on or before June 30, 2004, revised rate schedules setting forth the following rates and charges:

**MONTHLY USAGE CHARGE:**

5/8" x 3/4" Meter	\$ 27.85
3/4" Meter	41.78
1" Meter	69.63
1 1/2" Meter	139.25
2" Meter	222.80
4" Meter	696.25
6" Meter	1,392.00

**Gallage Charge per 1,000 Gallons**

From 0 gallons to 4,000 gallons	\$3.00
From 4,001 gallons to 30,000 gallons	4.25
Over 30,000 gallons	4.75

**SERVICE LINE AND METER INSTALLATION CHARGES**

5/8" x 3/4" Meter	\$ 420.00
3/4" Meter	495.00
1" Meter	580.00

1 1/2" Meter	820.00
2" Meter	2,140.00
4" Meter	4,105.00
6" Meter	7,590.00

SERVICE CHARGES:

Establishment	\$15.00
Establishment (After Hours)	22.50
Reconnection (Delinquent)	25.00
Meter Test (If Correct)	15.00
Deposit	**
Deposit Interest	**
Reestablishment (Within 12 Months)	***
NSF Check	15.00
Deferred Payment (per Month)	1.50%
Meter Reread (If Correct)	5.00
Late Payment Charge (per Month)	1.50%

\* Per Commission rule A.A.C. R-14-2-403(B).

\*\* Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

IT IS FURTHER ORDERED that Katherine Resort Water Company notify its customers of the water rates and charges approved hereinafter by means of an insert in its monthly billing proceeding the month in which they are to become effective and file with the Compliance Section of the Utilities Division a copy of the notice when sent to its customers.

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1 IT IS FURTHER ORDERED that Katherine Resort Water Company shall comply with Staff's  
2 recommendations as set forth in Findings of Fact No. 27 with the exception of d and e concerning the  
3 proposed refund of the surcharge and the filing of quarterly reports with the Commission's Docket  
4 Control.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

7  
8  
9 CHAIRMAN

COMMISSIONER

COMMISSIONER

10  
11 COMMISSIONER

COMMISSIONER

12  
13 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
14 Secretary of the Arizona Corporation Commission, have  
15 hereunto set my hand and caused the official seal of the  
16 Commission to be affixed at the Capitol, in the City of Phoenix,  
17 this \_\_\_\_ day of \_\_\_\_\_, 2004.

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BRIAN C. McNEIL  
EXECUTIVE SECRETARY

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

MES:mlj

1 SERVICE LIST FOR: KATHERINE RESORT WATER COMPANY

2 DOCKET NO.: W-01751A-03-0036

3  
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